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## **Honduras**

## **Coffee Annual**

## **Honduran Coffee Sector in a Year of Rust**

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**Report Highlights:**

Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume. Honduran coffee production in marketing year 2013/2014 (October 2013 – September 2014) is forecast at 5.10 million 60-kilogram bags. Coffee exports for 2013/2014 are forecast at 5.06 million bags; however, coffee production for the coming years will face challenges due to the coffee leaf rust, which has impacted 25 percent, roughly 71,000 ha. of the area planted with coffee in Honduras. Exports in 2011/2012 soared to 5.5 million bags, 41 percent higher than the previous year, with a record export value of US\$1.43 billion.

## Executive Summary:

Sixty-one percent of Honduran coffee production is grown in the mountains between 2,700 and 3,600 feet above sea level, 23 percent in areas from 3,600 to 4,800 feet above sea level, and 16 percent in areas 1,500 to 2,700 feet above sea level. Coffee is grown in 16 of the 18 Honduran departments and in 213 out of the 298 municipalities of Honduras. Honduras differs from other coffee-growing countries in the region because of the prevalence of small producers. During the 2011-2012 harvest, more than 112,000 producers registered as producers with the Honduran Coffee Institute (IHCAFE). Out of all producers, about 94,829 small producers, each farmer selling less than 77 bags, collectively grew 85 percent of all coffee produced in Honduras.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people are involved in the coffee sector in activities such as coffee harvesting, fertilizer application, shade control, cleaning, drying, commercialization, and transportation. Roughly US\$150 million is distributed over a four month basis to 1.2 million people who directly participate in the coffee harvest. According to IHCAFE, there is a steady demand for roughly 800,000 on-farm employees based upon an average of two workers per “*manzana*” (1 manzana equals about 0.7 of a hectare; about 1.7 acres). Large coffee producers tend to hire workers, while small producers tend to rely more on family members to provide on-farm labor. Seasonal labor demand for picking coffee beans is 500,000 workers per year during the harvest season. According to the latest data from the Central Bank of Honduras, coffee accounts for 38 percent of total income from agricultural exports.

Coffee production for the coming years will face challenges and difficulties due to coffee leaf rust. On January 24, 2013, Honduras became the fourth Central American country to declare a state of emergency due to coffee rust. IHCAFE estimates that 25 percent, roughly 71,000 ha. of the country’s cultivated coffee acreage has been affected by coffee leaf rust. However, the 2013/2014 harvest is forecast at 5.10 million 60-kg bags, up from the current harvest estimated at 4.6 million bags. The export forecast for 2013/2014 is 5.06 million 60-kg bags.

The increase in productivity for the 2013/2014 harvest is based upon Honduras’ implementation of short, medium, and long term strategies to control the coffee rust, as well as renovation and rehabilitation of farms. Moreover, the area planted in coffee increased under the incentive of high world prices in recent years resulting in additional areas coming into full production during 2013/14. Additionally, the impact of the rust has also been mitigated by the fact that Honduras is the only country in the Central American region that undertook research for the last 20 years to develop coffee varieties resistant to the coffee leaf rust. The varieties developed were the IHCAFE 90 and Lempira which IHCAFE currently produces. Nevertheless, about 50 percent of the total area of coffee production is still planted with rust susceptible varieties.

Exports in 2012/13 are forecast at 4.4 million bags, twenty-one percent less than estimated due to the impact of the coffee rust. Exports in 2011/2012 were 5.5 million bags, forty-one percent higher than the previous year. The export value reached US \$1.43 billion. This was 16 percent higher than the earnings of US \$1.24 billion from the 2010/2011 harvest. This harvest and export level set an historic record. The average New York (Inter-Continental Exchange ICE) price for the 2011/2012 harvest was US \$197 per 46-kg bag compared to the average price of US \$248 in 2010/2011.

During 2011/2012 exports of specialty, certified, and organic coffee were more than 799,000 bags, an increase of 36 percent over the previous year, making up 15 percent of total Honduran coffee exports. Exports of specialty coffee have been growing as the result of increased demand for specific flavor profiles, as well as consumers in export markets who have increased the value they place on the credence attributes of coffee.

Honduran producers have participated for ten consecutive years in regional coffee quality competitions in the international “Cup of Excellence” auction. The Specialty Coffee Association of America (SCAA) Board of Directors named Honduras as the “Portrait Country” for the annual SCAA exposition held in Oregon on April 2012.

### **Production:**

Production for the 2012/2013 harvest is estimated at 4.6 million bags, 21 percent lower than the 5.8 million bag estimate made previously. The decrease is attributed to coffee leaf rust and low coffee prices. IHCAFE estimates that 25 percent of Honduran coffee production has been impacted by coffee leaf rust with more than 14,000 ha. completely devastated and roughly 57,000 ha. heavily affected. IHCAFE reports that 50 percent of the total area of coffee production is planted with rust susceptible varieties.

Post estimates the 2013/2014 harvest will reach 5.10 million 60-kg bags, recovering from the current year harvest estimated at 4.6 million bags. This inter-year recovery is expected given the efforts of IHCAFE and others to implement short, medium, and long-term strategies to combat coffee leaf rust. These strategies are to focus on producer training, educational campaigns to control coffee leaf rust, finance for the renovation of farms, and technical assistance to increase coffee quality and farm productivity. It is also noted that additional areas planted in coffee which were incentivized by heightened world prices will begin full production in the coming years.

Areas of coffee planted and harvested in 2013/2014 and in 2012/2013 will remain fewer than the 2011/2012 levels due to the impact of the coffee leaf rust and the process of renovation and rehabilitation of plantations. Additionally, the number of bearing trees has decreased due to the impact of the coffee leaf rust and the process of renovation and rehabilitation of plantations. The non-bearing trees will have the opportunity to grow if preventive controls are taken and good agricultural practices are implemented.

Production for the 2011/2012 harvest was 5.7 million bags, three percent higher than the estimated amount of 5.6 million bags. The 2011/2012 production set an historic production record. The increase in production in 2011/2012 was due to Honduran producers being motivated by the high international prices of coffee resulting in an increase in area planted in coffee during previous years. Producers used more inputs such as the application of the fertilizer, the provision of new seeds, the improvement of planting density, and soil conservation techniques to increase yields and production levels. In addition, higher prices motivated landholders in other crops or professions to convert larger proportions of their land holdings to coffee production. An estimated 11,000 new coffee producers entered the market in

2011/2012, resulting in a total of about 112,000 registered coffee farm operators in the Honduras. This is equivalent to an 11 percent increase in the number of coffee producers.

Honduras differs from other coffee-growing countries in the region because of the heightened prevalence of small producers. IHCAFE's register includes 94,829 small producers, with each farmer selling less than 77 bags, who are responsible for 85 percent of all production in Honduras.

IHCAFE maintains a trust fund to buy fertilizer, sell it at a discount, and on credit terms with payment not due for one year. The trust fund also provides financial assistance for maintenance and renewal of coffee farms. About 112,000 coffee producers participate in this program.

Production of "value-added" coffee is also increasing. More than 799,000 bags of specialty, certified, and organic coffee were produced in 2011/2012. This is a 36 percent increase in production from the previous year. The production was under programs such as UTZ Kapeh Certified, USDA Organic, Rain Forest Alliance, Fairtrade, and Cafe Practices from Starbucks and others. As part of IHCAFE's efforts to market Honduran specialty coffees, six distinct coffee regions defined by unique flavors have been established.

### **Consumption:**

Domestic consumption for 2013/2014 is six percent of production, for 2012/2013 and 2011/2012 is five percent of production. Consumption per capita in 2011 was 3.6 kg per person. The increase in consumption can be tied to the growing presence of coffee bars located in gas stations, shopping malls, main business streets, supermarkets, and hospitals. A large percentage of the Honduran population is young and these Hondurans are consuming more and different types of coffee drinks, e.g., "frozen" coffee drinks. Particularly, the coffee bars providing customers with free wireless internet service are attracting high school and university students as loyal customers.

### **Trade:**

#### ***Exports***

Coffee exports were 5.5 million bags in 2011/2012, three percent more than estimated. The volume exported was 41 percent higher than 2010/2011 exports. Post estimates the 2013/2014 harvest will reach 5.10 million 60-kg bags, with 5.06 million bags exported. Exports for 2012/2013 are estimated at 4.4 million bags, 20 percent lower than 2011/2012.

Exports to Germany, Belgium, the United States (U.S.), Italy, Venezuela, France, South Korea, Holland, Sweden, and Spain represented 89 percent of total shipments. The greatest volume (30 percent) was exported to Germany, and the U.S. was the number three destination accounting for 17 percent of total exports. During 2011/2012, Honduras exported coffee to 47 countries, with an increase of eight countries more than the previous year.

### **Export Trade Matrix**

<b>Country</b>	Honduras		
<b>Commodity</b>	Coffee, Green		
Time Period	MY	Units:	60 Kg Bags
Exports for:	2012		2013
U.S.	947,570	U.S.	756,447
Others	Others		
Germany	1,651.821		1,318.866
Belgium	1,067.796		852,587
Italy	244,460		194,902
Venezuela	238,452		190,532
France	185,992		148,580
S. Korea	154,034		122,797
Holland	134,506		107,502
Sweden	120,152		95,703
Spain	113,697		90,896
Total for Others	3,910.910		3,122,365
Others not Listed	615,373		491,188
Grand Total	5,473,854		4,370,000

Export value for 2011/2012 established a new record reaching US \$1.43 billion, an increase of 16 percent in comparison to the previous marketing year. According to Honduran Central Bank data, coffee export earnings for 2012 accounted for 38 percent of the total export revenues from agricultural products. The average export price in the 2011/2012 harvest was US \$197 per 46-kg bag compared to the average price of US \$248 in 2010/2011.

### ***Informal Exports***

The flow of contraband coffee going to Guatemala and Nicaragua is estimated at 153,000 60-kg bags. This unregistered flow is stimulated by the need of some growers to receive cash rapidly for their unprocessed product. Intermediaries help in the commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or for basic needs such as food.

Another reason for this unregistered trade is the existence of an alternate market. Honduran coffee sellers obtain a higher price if they do not sell it in the formal market: If producers sell their coffee through the formal market, according to law, they face a deduction of US \$9.00 per quintal (100 pounds). However, the volume sold within the alternate market notably declined by roughly 41 percent during the 2011/2012 harvest. The decrease was due, in part, to importers being more aware of the quality coffee that it is being produced in Honduras which resulted in increased demand within the formal market. Additionally the Government of Honduras (GOH) implemented more controls to prevent the unregistered flow of coffee.

### ***Imports***

According to updated data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption have come mainly from Mexico, Chile, Brazil and the United States. Post expects that competition to U.S. supplied roasted and soluble coffee will increase as international coffee companies sell their soluble coffee in machines located at commercial centers and office buildings. In addition, they are selling soluble coffee to customers in supermarkets in smaller containers.

### ***International Marketing***

For the tenth year running, IHCAFE organized the "Cup of Excellence" competition. This promotional event brings together the best Honduran coffees which are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. In 2011/2012, more than 799,000 60-kg bags were produced under programs such as UTZ Kapeh Certified, USDA Organic, Rain Forest Alliance, Fairtrade, Cafe Practices from Starbucks and others.

The Specialty Coffee Association of America (SCAA) Board of Directors named Honduras as the "Portrait Country" for the annual SCAA exposition held in Oregon on April 2012.

For Honduras, the initiative represented a united strategy supported by the government, the private sector, and leading institutions to strengthen its coffee sector and trading ties with the United States.

Honduras, which has a growing reputation as a specialty coffee power player, earned a spot in the SCAA Opening Ceremonies, where President Lobo of Honduras gave a speech. The "Portrait Country" status is sure to bring extra eyes to Honduras, as well as the recent quality improvement work done by the nation's coffee institute, IHCAFE. As demand for high quality Arabic coffees continues to rise, the commitment of Honduras represents an opportunity to build the supply chain for U.S. coffee roasters.

### **Stocks:**

Stocks decreased during 2011/2012 from the estimated amount in light of the increase in exports.

Coffee beans stored by the roasters are only toasted upon request. Roasters keep the remaining beans for domestic consumption. The coffee might also be sold to other Central American countries throughout the year.

### **Policy:**

The Government of Honduras privatized IHCAFE in 2000. The privatization was done in order to rationalize the coffee sector. At the same time, the National Council of Coffee was created. IHCAFE is the specialized institution in Honduras that works with all aspects of coffee production, harvesting, and exporting. IHCAFE provides guidelines, extension services, and implements projects to increase production and to improve the quality of Honduran coffee. It also establishes commercialization procedures and controls coffee production and exports. As part of those controls, exporters must register the coffee which they buy from growers and the coffee which they export with IHCAFE. Subsequently, IHCAFE issues export permits to exporters. The Board of Directors of IHCAFE includes

coffee growers, coffee roasters, exporters, and representatives from the Ministry of Agriculture and Ministry of Industry and Trade.

IHCAFE has developed and started to implement a national strategy against the coffee leaf rust. The strategy contains short, medium, and long term actions. IHCAFE has made key alliances with other GOH institutions, international and regional organizations, and coffee farmers associations. Honduras is part of a regional agreement from Mexico to Panama to manage coffee leaf rust.

IHCAFE has begun a national campaign about coffee leaf rust control and the rehabilitation and renovation of affected farms. These actions include technical and financial resources for the producers affected. The objective is to reduce the impact on the economic, social, and environmental situation of thousands of coffee producers and their families. IHCAFE recognizes that further actions need to be taken related to the influence of climate change on providing favorable conditions for the growth of this kind of fungus. In addition, there is need to follow up on the major findings and recommendations of the First International “Coffee Rust Summit” held in Guatemala in April 2013.

Due to the high level of indebtedness of many growers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contribution of coffee growers. The grower's contribution is obtained through the deductions that the exporter or intermediary makes when they buy the grower's coffee. One of the deductions is for US \$9.00 per quintal (100 pounds). This deduction is transferred to IHCAFE, which in turn transfers it to the trustee banks. This deduction is returned to the producer in 60 days. The interest from the US \$9.00 contribution is assigned to pay off the US \$20 million loan over the next 14 years.

The other mechanism to obtain funds is through an exporter deduction of US \$3.25 per purchased quintal. Out of the US \$3.25, approximately US \$0.50 is applied to the repayment of the US \$20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the Coffee Fund. The Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

To exemplify some of the benefits of the trust fund, IHCAFE used part of the trust fund to increase productivity and to lessen the impact of fertilizer prices on coffee producers. IHCAFE buys fertilizer used by producers and sells it to them at a lower-than-market price. The fertilizer is sold to coffee producers for cash or on credit with payment due in a year. This program supports an increase in production and also helps hold down the overall commercial price of fertilizer. The trust fund also provides financial assistance to purchase equipment and seeds, as well as offers technical assistance through education programs on crop diversification and irrigation methods.

In addition to its fertilization program, IHCAFE has implemented the following projects: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation, and Productive Diversification. The programs being implemented are the Assistance to Small Coffee Producer, Land Title, Solar Dryers, Agro Forestry and Community Forestry. IHCAFE has also created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Tasters.

IHCAFE created in 2008 the National Quality Center to differentiate the coffee from Honduras and open international markets. The objective is to improve the living conditions of coffee farmers. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee producers in their product knowledge and technology, as well as for the identification of quality specialty niches. In 2012, a Technical Standard of Coffee was approved, which is part of the National System of Honduras Coffee Quality. This Standard supports the production and marketing processes of coffee in Honduras. In addition, IHCAFE has focused on educating young Hondurans in the Cupping School to improve long-term knowledge of coffee quality. Additionally, IHCAFE has signed an agreement with the National University of Honduras and to establish an academic program focused on quality control in coffee.

Through these projects and programs, IHCAFE is introducing new ways to add value, to develop specialty coffee, and to find niche markets. Coffee producers are provided technical assistance to diversify their farm production by growing precious woods, and including food products such as avocado, fruits, fish, poultry or bees.

### Production, Supply and Demand Data Statistics:

Coffee, Green Honduras	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	285	0	271		282
Area Harvested	0	245	0	231		241
Bearing Trees	0	1,042	0	983		1,025
Non-Bearing Trees	0	170	0	170		174



Total Tree Population	0	1,212	0	1,153		1,199
Beginning Stocks	30	30	90	39		54
Arabica Production	5,600	5,750	5,800	4,600		5,100
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	5,600	5,750	5,800	4,600		5,100
Bean Imports	0	0	0	0		0
Roast & Ground Imports	0	9	0	10		10
Soluble Imports	15	15	15	15		18
Total Imports	15	24	15	25		28
Total Supply	5,645	5,804	5,905	4,664		5,156
Bean Exports	5,290	5,474	5,500	4,370		5,060
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	5,290	5,474	5,500	4,370		5,060
Rst,Ground Dom. Consum	250	276	250	230		307
Soluble Dom. Cons.	15	15	10	10		10
Domestic Use	265	291	260	240		317
Ending Stocks	90	39	145	54		72
Total Distribution	5,645	5,804	5,905	4,664		5,449
Exportable Production	5,335	5,459	5,540	4,360		5,050
TS=TD		0		0		0